

## Message Text

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AMEMBASSY MADRID

C O N F I D E N T I A L EC BRUSSELS 09640

E.O. 11652: GDS

TAGS: SP, EEC

SUBJECT: SPAIN AND THE EUROPEAN COMMUNITY

REF EC BRUSSELS 9605

1. DEPARTING SPANISH AMBASSADOR ULLASTRES GAVE ME  
ON SEPTEMBER 30 HIS VIEW ON PROSPECTS FOR SPAIN'S  
FUTURE RELATIONS WITH THE COMMUNITY. SPAIN WILL  
NOT APPLY FOR FULL MEMBERSHIP IN THE EUROPEAN  
COMMUNITY BEFORE JUNE AND THE SPANISH SUMMER ELEC-  
TIONS. IN THE MEANTIME SPAIN PREFERS A MODEST  
TRANSITIONAL ARRANGEMENT -- RATHER THAN THE AMBITIOUS  
PROPOSAL MADE BY THE EC COMMISSION (REFTEL). ULLASTRES  
PUT THE ARGUMENTS AS FOLLOWS:

2. THE COMMISSION HAS CLAIMED THAT PROSPECTIVE FUTURE  
SPANISH MEMBERSHIP IN THE COMMUNITY ARGUES FOR IMMEDIATE  
CLOSER TRADE INTEGRATION IN ORDER TO PREPARE FOR PROMPT  
SPANISH ACCESSION. THE SPANISH RESPONSE IS THAT  
THOUGH SPAIN NOW WANTS AND NEEDS INTEGRATION  
WITH EUROPE, ACCESSION IS NOT INEVITABLE. THE  
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NEW SPANISH GOVERNMENT MAY NOT BE SO EUROPEAN AS

THE CURRENT ONE. THE MEMBER STATES MAY NOT BE ABLE TO AGREE ON TERMS OF SPANISH ACCESSION, OR THE MEMBER STATES MAY NOT BE WILLING TO AGREE ON TERMS ACCEPTABLE TO SPAIN. IN ANY CASE, THE CURRENT INTERIM SPANISH GOVERNMENT DOES NOT BELIEVE IT SHOULD MAKE BASIC DECISIONS THAT WOULD TIE THE HANDS OF THE NEW GOVERNMENT TO BE FORMED EARLY NEXT SUMMER.

3. THE COMMISSION HAS ARGUED THAT SPAIN HAS BEEN BENEFITING SINCE 1970 FROM UNEQUAL ADVANTAGES (THE 1970 AGREEMENT REQUIRED FASTER TARIFF DISMANGLEMENT BY THE COMMUNITY THAN BY SPAIN). SPAIN SHOULD BE WILLING TO BRING THE 1970 AGREEMENT INTO BETTER BALANCE BY HEAVY CONCESSIONS ON THE INDUSTRIAL SIDE. THE SPANISH ARGUMENT IS THAT SPAIN COULD AGREE TO THIS IN PRINCIPLE BUT FASTER SPANISH INDUSTRIAL TARIFF REDUCTIONS SHOULD BE COMPENSATED BY FASTER COMMUNITY AGRICULTURAL REDUCTIONS THAN THE COMMUNITY IS PREPARED TO MAKE.

4. THE COMMISSION HAS ARGUED THAT TRADE INTEGRATION SHOULD PROCEED AS FAST AS POSSIBLE. THE SPANISH RESPONSE IS THAT SPAIN IS NOW IN THE MIDDLE OF AN INDUSTRIAL DEPRESSION AND THE EUROPEAN COMMUNITY IS AT A LOW POINT IN AGRICULTURE. NEITHER SIDE CAN NOW POLITICALLY TOLERATE DEEP TRADE BARRIER CUTS. IT IS BEST TO STICK TO SMALL STEPS UNTIL NEGOTIATIONS FOR ACCESSION. ULLASTRES POINTS OUT THAT THE EC COUNCIL AT THIS STAGE IS ALSO UNWILLING TO FOLLOW THE COMMISSION'S AMBITIOUS LEAD.

5. IN ANY CASE, ULLASTRES SAYS, THE CURRENT ARRANGEMENT CANNOT CONTINUE. BY JULY 1977 THE BRITISH AND DANES WILL BE FORCED TO GIVE TO SPAIN THE SAME TREATMENT GIVEN BY THE SIX. THIS WOULD MEAN AN INCREASE IN CURRENT LOW DANISH AND BRITISH AGRICULTURAL TARIFFS FOR SPANISH GOODS. A TRANSITIONAL AGREEMENT IS NECESSARY TO CONTINUE THE STATUS QUO AND AVOID DAMAGE TO SPANISH EXPORTS.

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6. SPANISH AGRICULTURE HAS TWO SEGMENTS: A STRONG EXPORT SECTOR WHICH DEMANDS ENTRY INTO THE COMMON MARKET (CITRUS, TOMATOES, CANNED FRUIT, OLIVE OIL, WINE, PORK AND POULTRY) AND A WEAK DOMESTIC SECTOR WHICH CAN BARELY TOLERATE EUROPEAN COMPETITION (CATTLE, DAIRY PRODUCTS, GRAINS). THOUGH SPANISH GRAIN PRICES ARE SIMILAR TO THOSE OF THE COMMUNITY, SPANISH

GRAIN PRODUCTION PER ACRE IS ONLY 1/3 THAT OF THE COMMUNITY. ADHESION MEANS THAT THOUGH THE SPANIARDS CAN STAND THE COMMON MARKET IN THE SHORT RUN, IN THE LONG RUN MUCH LAND WOULD GO OUT OF CEREAL PRODUCTION, A DIFFICULT POLITICAL PILL TO SWALLOW. A LONG ADJUSTMENT PERIOD IS THUS NECESSARY, NOT ONLY IN AGRICULTURE BUT ALSO IN INDUSTRY.

7. SPAIN ANTICIPATES THAT THE COMMON AGRICULTURE POLICY MUST EVENTUALLY CHANGE. GERMANY HAS MADE IT CLEAR THAT IT WILL NO LONGER TOLERATE THE FINANCIAL BURDEN IMPOSED BY THE PRESENT SYSTEM. THIS ALSO ARGUES FOR A SLOW APPROACH TO SPANISH NEGOTIATIONS.

8. THE ADDITION OF THREE NEW MEDITERRANEAN STATES TO THE COMMUNITY (GREECE, PORTUGAL AND SPAIN) IS HARDER ECONOMICALLY THAN POLITICALLY. SPEAKING PERSONALLY, ULLASTRES' DEPUTY SAID THAT THE ECONOMIC WEAKNESS OF THE THREE MEDITERRANEAN STATES MIGHT MEAN THAT THE COMMUNITY WOULD HAVE TO TAKE A BACKWARD ECONOMIC STEP THOUGH IT COULD, AT THE SAME TIME, MOVE FORWARD POLITICALLY. THERE MIGHT HAVE TO BE SOME SORT OF COMPROMISE ALONG THE LINES OF HEAVY PARTICIPATION BY THE NEW THREE IN POLITICAL INTEGRATION BUT CONSIDERABLY LESS PARTICIPATION IN ECONOMIC INTEGRATION AND DECISION-MAKING.HINTON

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